

# EXECUTIVE SECRETARIAT ROUTING SLIP

TO:		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR		X		
4	D/ICS				
5	DDI		X		
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt	DDS	for ES R 11/18		
13	D/EEO				
14	D/Pers				
15	D/OLL	X			
16	D/PAO		X		
17	SA/IA				
18	AO/DCI				
19	C/ISP/OIS				
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21					
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SUSPENSE		21 Dec Date			

Remarks: Please have response prepared for DCI's signature.

Executive Secretary

13 December 1983

Date

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83-5977

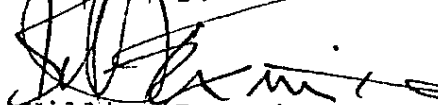
Mr. William J. Casey  
Director of Central Intelligence  
Central Intelligence Agency  
Washington, D.C. 20505

Dear Mr. Casey:

An article that appeared in the Wall Street Journal December 6 by Lev Navrozov challenges the CIA's assessment of the Soviet economy and the estimates of "Soviet defense spending." The article refers to another study by Igor Birman which apparently also is critical of the CIA. A copy of the article is enclosed.

I would like you to prepare a detailed commentary responding to the arguments and criticism of Mr. Navrozov. I realize that you would not necessarily want to respond to all criticisms. However, as this one appeared in a respected, widely read national newspaper, it is likely to create considerable doubt about the CIA's assessments. I would expect some of my colleagues to be influenced by and possibly repeat such arguments. Under the circumstances, it would seem to me prudent for you to indicate whether there are inaccuracies and inconsistencies in Mr. Navrozov's approach.

Sincerely,



William Proxmire  
Vice Chairman

Subcommittee on International Trade,  
Finance, and Security Economics

WP:rkt

Enclosure

DCI  
EXEC  
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6-272

NSJ  
12/6/83

## Why the CIA Undershoots Soviet Arms Spending

By LEV NAVROZOV

Every year the Central Intelligence Agency makes public two estimates crucial for Western policies: "Soviet defense spending" and its rate of growth. The agency's latest numbers are being used to play down the need for a U.S. rearmament policy. Some background is in order.

Before 1976, the CIA's estimate of Soviet defense spending hovered around 6% of the Soviet gross national product—roughly matching the American percentage. The "Soviet defense burden," the CIA stated in 1973, "is no greater than that of the United States," and the "Soviet share of gross national product spent on defense has been falling." This good news nurtured detente and sapped the stronger defense policy. In 1976, the CIA announced that every year it had been making a 100% error: Soviet defense spending had been closer to 12%, not 6%, of GNP, and had been growing since 1966 at 4% to 5%. It was time for detente to wane and for defense to wax.

According to the CIA's testimony this year before Congress's Joint Economic Committee, released to the press last month as a 66-page report, Soviet defense spending has been growing not at 4% to 5%, but at "about 2% a year . . . because procurement of military hardware—the largest category of defense spending—was almost flat in 1976-81." And, according to "preliminary estimates available for 1982," the "trends . . . are continuing." Now it is time for opponents of Mr. Reagan's defense policy to rejoice.

That the CIA's estimates of the Soviet GNP share spent on defense are absurd is obvious at a glance. About 300,000 engineers and 400,000 "junior engineers" are graduated in the U.S.S.R. annually, and half of these 700,000 go into the military sector; in the U.S., 60,000 engineers are graduated, and only one-fifth of them go into the defense industry. The expenditure ratio in this area is thus almost 60 to 1, considering the fact that the pay of Soviet

military engineers is on the average twice as high as that of civilian engineers. How can the Soviet economy pay for such ratios if Soviet defense spending as a share of GNP roughly matched its American counterpart according to the pre-1976 CIA, and is only about twice as high according to the post-1976 CIA?

The key to the CIA calculus is the Soviet GNP. Yet the CIA can't now calculate the GNP for the U.S.S.R., if only because most Soviet goods and services are priced by fiat, and few of them can be sampled and evaluated, since they are foisted on Soviet consumers far from foreign eyes.

Predictably, the Soviet Central Statistical Office inflates the value of the overall Soviet output in order to make its military sector look small. Thus, this office claims that the Soviet national income in dollars was, as of 1976, 67% of its American counterpart. The CIA's latest Soviet-American GNP ratio in dollars for the same year is 73.7%—more favorable to the Soviet economy than the national income ratio. Actually, the GNP ratio must be far less favorable to the Soviet economy than the national income ratio, since the latter disregards services and plant depreciation, and it is precisely in those two areas that the Soviet economy lags further behind the U.S. than it does in goods.

The CIA reports give no sources for data. An American unfamiliar with the Soviet press is likely to infer that those are secret intelligence sources. Actually, they are "open" Soviet books and pamphlets—i.e., Soviet propaganda—since the CIA has never been able to obtain "closed" Soviet statistics.

In its American-Soviet GNP comparisons, the CIA uses a methodology appropriate for comparing the GNPs of the U.S. and, say, Western Europe. Thus the CIA ignores, in terms of both cost and value, the Soviet lack of Western diversification, innovation and sophistication of consumer goods and services, as well as of trade it-

self, whereby the right goods and services reach the right customers at the right time. Using the CIA's methodology, it can be proved that even Soviet labor-camp inmates consume, in terms of dollars or rubles, not so much less than median-income Americans.

Having inflated the Soviet GNP, more than Soviet propaganda does, the CIA gets, if only for that reason, "Soviet defense spending" as an absurdly low percentage of GNP.

There are other reasons. As is clear even from the reports, the CIA has no human agents at the top of the Soviet infrastructure. Thus, it can perceive and evaluate the weapons tested, built or deployed under optically or electronically observable conditions, but not the weapons developed, produced, stored or deployed on optically and electronically closed premises. It can't know to what extent each "civilian" institution works as a military one. With the greater importance paid nowadays to high-technology surveillance, as opposed to the former belief in the necessity of agents in place, the discrepancy between what is observed by the CIA and what actually occurs has only widened. Nor does the agency allow for the fact that civilian production mainly receives those human and other resources rejected by the military.

While the CIA's "Soviet defense spending" is an imaginary "shaggy dog" that the CIA can reshape at will, the rate of that spending's growth is an imaginary flea on that imaginary dog: If the CIA announced in 1976 that its "Soviet defense spending" had been wrong by 100%, how can the CIA presume that it increases at "about 2%" and not 4% to 5%?

"The slowdown in Soviet military growth" is the only new fact in the CIA's testimony this year. Just like its predecessors, it is a digest of the Soviet press. Thus we learn that in 1982 the Soviet economy produced 147 million tons of steel, com-

pared with 66 million tons produced in the U.S. But what does the regime do with all that steel, considering how little goes into cars, housing and highways, and considering how much rolled steel (\$5.3 billion a year) the regime imports? The answer is, missing in this year's CIA report, just as it was missing 10 years ago.

The CIA report abounds in slogans lifted unthinkingly from the Soviet press. "Production of fruits and vegetables reached record levels. . . ." "Meat output . . . reached a record level. . . ." "Railroad performance has also improved markedly. . . ." Andropov's regime "has shown concern for the welfare of the population. . . ." The latter is a Soviet cliché in use since 1918.

In 1977, the CIA made the groundless and indeed preposterous prediction that the Soviet economy faced an oil crisis; this year, the CIA explains that the Soviet economy "has thus far averted the downturn in oil production . . . by virtue of an enormous brute-force development effort. . . ." as though there is a Soviet national development effort that can't be credited to brute force.

The CIA is a closed, noncompetitive bureaucracy that is practically unopposed, since most of the major news media agree with its intelligence. All attempts to expose its scholastics have failed. Thus, in 1978 I submitted to the CIA a 150-page analysis of its reports and then distilled my paper into an article for *Commentary*; that Ronald Reagan and his associates hailed enthusiastically. But that applied to Jimmy Carter's CIA. When the CIA became Mr. Reagan's, the enthusiasm evaporated.

Recently, former Soviet economist Igor Birman made a painstaking study showing that the CIA doesn't know the Soviet economy as it exists, but as it seems on the basis of purely American experience and "open" Soviet statistics. The CIA has never budged, and possibly never will.

Mr. Navrozov, a Russian emigre, writes frequently on Soviet affairs and intelligence matters.